



**Statement by**

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Before the

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Information, Federal Services, and International Security

Hearing on

Eliminating and Recovering Improper Payments

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## **Opening Statement**

Thank you Chairman Carper, Senator Coburn, and Members of the Subcommittee for allowing me this opportunity to testify before you regarding the Department of Homeland Security's (DHS) efforts to reduce improper payments. I also want to thank you for Senate Resolution 94. Your statement of support and recognition of the DHS workforce is greatly appreciated. Secretary Chertoff and I are committed to strengthening the processes needed to implement the Recovery Auditing Act of 2001 and the Improper Payments Information Act of 2002 (IPIA).

## **Department-wide Improper Payments Information Act Testing**

In Fiscal Year (FY) 2005, the Department's improper payment testing and reporting was limited, however each year we continue to make improvements. In FY 2006, we improved our IPIA process by executing statistically valid sample test plans. Based on this test work, DHS identified two high risk programs at the Federal Emergency Management Agency (FEMA): 1) Individuals & Households Program (IHP) (i.e., payments to individuals) and 2) Vendor Payments (i.e., payments to contractors). We also determined that many programs at other components are not at high risk. For example, in FY 2006 we conducted statistically valid sample testing<sup>1</sup> at:

- Four programs totaling \$2.4 billion in payments at U.S. Customs and Border Protection;
- Four programs totaling \$1.5 billion in payments at U.S. Immigration and Customs Enforcement and cross serviced components;
- Two programs totaling \$2.0 billion in payments at Transportation Security Administration;
- One program totaling \$0.8 billion in payments at U.S. Coast Guard;
- One program totaling \$0.1 billion in payments at U.S. Secret Service;
- Three programs totaling \$0.1 billion in payments at Federal Law Enforcement Training Center; and
- The Department's centralized purchase card program totaling \$0.4 billion in payments.

In FY 2007, we will expand the scope and quality of our testing. First, our IPIA process was strengthened to include more front end checks for consistency with Treasury payment data. Second, all DHS components will conduct IPIA risk assessments to identify programs susceptible to improper payments, in accordance with Office of Management and Budget (OMB) guidance provided by Appendix C to A-123. In addition, major DHS components will test the design of key controls for payment management processes. We also have a much clearer understanding of which components and types of programs present the greatest challenge.

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<sup>1</sup> These high volume programs issued greater than \$100 million in FY 2006 payments, excluding payroll, intragovernmental and travel.

To ensure the long-term effectiveness of the Department's efforts to reduce improper payments, in our FY 2008 Budget we requested additional resources to enhance risk assessment procedures and conduct oversight and review of component test plans.

### **DHS High Risk Programs**

In the wake of Hurricane Katrina, FEMA conducted testing that identified the following Disaster Relief Fund (DRF) programs as being at high risk for improper payments: 1) Individuals & Households Program (IHP) (i.e., payments to individuals) and 2) Vendor Payments (i.e., payments to contractors). The testing was designed to: determine if improper payments occurred; assess the root causes for improper payments; and develop corrective action plans to mitigate the risk of future occurrences of erroneous payments.

### **Individuals & Households Program (IHP)**

FEMA selected a statistical sample of 815 IHP payment transactions representing 276 individual applicants within the period September 1, 2005, through March 1, 2006. The sample of IHP payments included Rental Assistance, Lodging Expense Reimbursement (LER), Expedited Assistance (EA), Repair and Replacement Assistance, and Other Needs Assistance (ONA) for Hurricane Katrina victims. The IPIA IHP testing approach was developed to determine if IHP payments were in compliance with applicable laws and regulations.

FEMA IHP testing resulted in an estimate of improper payments totaling approximately \$450 million or 8.56 percent of \$5.25 billion in total payments. The estimate was based on a statistically valid sample. FEMA's key findings included the following:

- Lack of identity verification controls over phone registrations for assistance.
- Limited IT systems capabilities during a catastrophic disaster.
- Limited controls to prevent duplicate payments.
- Timeliness of detective controls surrounding post-payment activities.
- Inadequate training of emergency new hires and enforcement of policies and procedures.

To address these findings FEMA initiated corrective action plans to:

- Validate social security numbers during phone registration.
- Increased IT systems capabilities to handle high volume during a catastrophic disaster.
- Prevent duplicate applications.
- Enhanced post-payments reviews.
- Enhance emergency new hire training programs for all call centers.

## Vendor Payments

FEMA selected a statistical sample of 184 vendor payments made during the period September 1, 2005 through March 1, 2006. The sample of payments included transportation, rent, contractual services, supplies, and equipment to support Katrina disaster relief efforts. The IPIA Vendor Payments testing approach was developed to determine if Vendor Payments were in compliance with applicable laws and regulations. Vendor Payments testing resulted in an estimate of improper payments totaling approximately \$319 million of \$4.29 billion in total payments. The estimate was based on a statistically valid sample performed in conformance with IPIA guidance. Key findings included the following:

- Inadequate supporting documentation,
- Contractual deficiencies, and
- Unsupported freight amounts.

To address these findings FEMA initiated corrective action plans to:

- Review roles and responsibilities for invoice reviewers and approvers to ensure clarity.
- Enhance training and guidance for invoice processors on expectations including formalizing timelines for invoice approval and strengthening the delegation of signature authority process.
- Develop a vendor payment quality assurance program.
- Review contract language for consistency across similar goods and services regarding product substitution, freight charges and price variances.

## FEMA's Path Forward

FEMA has taken steps to strengthen compliance with the IPIA and to implement OMB guidance. FEMA's IPIA Program will continue to identify and reduce the likelihood of improper payments through the following steps:

- **IPIA Assessment** - Conducting a second round of IPIA testing on Katrina IHP payments made between March and November of 2006 to evaluate the improvement from restoring and improving payment controls.
- **IPIA Risk Assessment** - Perform a risk assessment of all FEMA programs to identify programs that are susceptible to a high level of improper payments. This work will be the basis for determining additional programs that may need to be tested for improper payments.

## **Conclusion**

DHS has made progress on IPIA, and we are on track to make more progress this year. We will continue to work closely with Director Paulison of FEMA to strengthen their core capabilities and capacity to manage payments. We will also continue to work closely with OMB to ensure continued progress in eliminating and recovering improper payments. I appreciate the support we have had from the Congress and this subcommittee. Thank you for your leadership and your continued support of the Department of Homeland Security. I would be happy to answer any questions you may have.